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SUBJECT: PRESIDENT CHAVEZ'S AUGUST 6 VISIT TO ARGENTINA: BONDS,
ENERGY, BOLIVARIAN FRATERNITY

Ref: (a) Buenos Aires 1415
(b) Buenos Aires 311
(c) Caracas 1518
(d) Buenos Aires 55
(e) 06 Buenos Aires 2240

Summary

¶1. (SBU) President Chavez arrives in Buenos Aires August 6 for a meeting with President Kirchner en route to Bolivia. The agenda will be principally economic: the issuance of a third tranche of the joint GoA/GoV "Bono del Sur" valued at up to US\$1 billion will be announced. Other likely announcements will include the proposed joint construction of an LNG de-gasification plant in Argentina, the sale of Venezuelan diesel fuel to Argentina to address current shortages, and Argentine technical assistance in the construction of new industrial good factories in Venezuela. Our GoA contacts continue to emphasize that Argentina's relationship with Caracas remains pragmatic and principally driven by economic considerations, and that they share neither Chavez's social ideology nor his Bolivarian ambitions.
END SUMMARY

¶2. (U) President Chavez arrives the afternoon of Monday, August 6 in Buenos Aires for a dinner meeting with President Kirchner and first lady Cristina Kirchner, following which agreements on a new tranche of GoV-supported financing and agreements in the energy sector are to be announced. Chavez is scheduled to depart Buenos Aires for Bolivia early Tuesday morning.

Argentina Seeks Additional GoV Bond Support

13. (SBU) Argentine and Venezuelan media are reporting Presidents Chavez and Kirchner will announce the issuance of a third tranche of the "Bono del Sur" during Chavez' visit. Although the press reports that GoA Finance Secretary Sergio Chodos recently returned from Bono del Sur negotiations in Caracas, Post's contacts at the GoA Economy Ministry cannot (or will not) confirm that the two governments have concluded an agreement on the issuance. Nevertheless, media reports speculate that it will consist of US\$500 million from each country, or US\$1 billion total, possibly followed up later in the year with two more issuances of \$500 million (or \$250 million each).

14. (SBU) Local analysts have questioned why the GoA would want to move forward with this issuance now, given recent increases in Argentina's country risk premium and GoA public statements that it currently has sufficient funds to cover expected expenditures for the remainder of 2007. If the GoA were to sell dollar-denominated Boden 2015 (7-year) bonds to the GoV at current market prices, it would pay a yield of about 10.4%, 240 basis points higher than rates for equivalent maturity bonds paid in February. It would seem more prudent to give the markets time to settle, and issue after country risk spreads have fallen (as most analysts expect will happen over the next few months).

15. (SBU) NOTE: Although both the GoA and GoV trumpet the Bono del Sur as a vehicle for Venezuela to help Argentina, the benefit to Argentina is limited at best. The instrument appears more of a political creation than a financial instrument, since the the Bono is simply a packaging of normal Argentine and Venezuelan bonds that money center market players strip out upon purchase. From the GoA's perspective, there is no/no difference between issuing bonds in a private placement to Venezuela or just selling them via local auction, since the end buyers are the same (international banks, hedge funds) and they are both issued at market rates. On the other

hand, Venezuela -- or at least the GoV and connected Venezuelan banks -- does derive some benefit from the transaction, by using the sale of the Argentine bonds to manipulate the difference in official and parallel exchange rates. END NOTE.

16. (SBU) Although the GoA does not appear to benefit economically from the Bono del Sur, it has benefited from overall GoV purchases of Argentine bonds, particularly the first GoV purchases in 2005. AT that time there was less interest in Argentine bonds and the Venezuela placements helped widen the market (given Argentina's inability to issue debt under international law). Since May 2005, the GoA has issued \$5.5 billion in debt to the GoV, of which 23% or \$1.2 billion has been included in Bono del Sur issuances. For the first tranche, in November 2006, the GoA issued \$500 million of dollar-denominated Boden 2012s (5-year) and Boden 2015s (7-year). The GoA issued \$750 million of Boden 2015s for the second tranche in February 2007.

Likely Energy Sector Accords

17. (SBU) Local media is reporting that Chavez/Kirchner will announce the launch of a \$400 million LNG re-gasification plant for Argentina, jointly owned by the GoV's PdVSA and Argentina's new state-owned energy company ENARSA. Further accords may be announced on the Argentine purchase of Venezuelan diesel fuel, given recent diesel shortfalls in Argentina exacerbated by the increased private sector demand to fuel private generators during the energy crisis (Ref A).

18. (SBU) NOTE: The announcement of a possible LNG project talks comes as a surprise to most local energy analysts, who question the project timing, and its lowball US\$400 million price tag. They say that \$1.2 billion is more realistic budget for an LNG receiving port degasification train. Analysts speculate that the LNG project announcement is designed to blunt the public relations fallout from the poor reception Chavez's proposal to build a natural gas pipeline across the continent has received from Mercosur countries, including Brazil. Local media reports that, in a recent televised speech, Chavez complained the plans for a 5,600-mile pipeline "was frozen,"

adding he proposed building it for political rather than economic reasons. Experts say the pipeline, which would be one of the world's longest, would be a huge technical challenge that could cost as much as \$40 billion. "I'm sure these difficulties are the product of the empire's actions," Chavez is quoted as saying, an apparent allusion to supposed U.S. interference. He also is reported to have accused U.S. officials of "buying" and "blackmailing" government officials within Mercosur to prevent Venezuela's entry, saying, "They are on a strong offensive." END
NOTE

¶9. (SBU) Local energy analysts also speculate there may be further discussion of the February 2007 agreement to have GoA national oil company ENARSA work jointly with PdVSA to explore and develop Ayacucho upstream exploration block in Venezuela's Orinoco region.

GoV Industrialization: Argentine Tech Assistance

¶10. (SBU) Local media is reporting that Enrique Martinez, President of the Argentinean National Institute of Technology (INTA), met last week in Caracas with President Chavez to discuss Argentine technical assistance in the construction of new industrial good factories in Venezuela. A total of 56 projects of industrial development were discussed during the meeting, according to the president of INTA, including 12 companies to be dedicated to the production of home furniture and appliances for the Venezuelan market.

Comment

¶11. (SBU) Chief of Cabinet Alberto Fernandez previewed the Chavez visit in an August 2 radio interview, saying "They've always been there when we needed them - Argentines should keep that in mind." The announcement of another round of Venezuelan debt funding appears to be the key GoV deliverable President Kirchner hopes to take away from this visit. Our Foreign Ministry contacts continue to tell us that the relationship with Caracas remains principally commercial, and that they don't share Chavez's ideology or put much stock in his Bolivarian ambitions. The GoA will continue to exploit what they see as an important economic relationship with Venezuela while downplaying, at least to the U.S., its political significance.

WAYNE